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**Joan Marsh**  
Director  
Federal Government Affairs

Suite 1000  
1120 20th Street NW  
Washington DC 20036  
202 457 3120  
FAX 832 213 0172

October 8, 2003

Ms. Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW, Room TWB-204  
Washington, DC 20554

Re: Notice of Oral Ex Parte Communication, In the Matter of Review of the Commission's Rules Regarding the Pricing of Unbundled Network Elements and the Resale of Service by Incumbent Local Exchange Carriers, WC Docket No. 03-173

Dear Ms. Dortch:

Yesterday, Rich Clarke, Mart Vaarsi and the undersigned, representing AT&T, met with Tamara Preiss, Steve Morris, Jay Atkinson, Jeremy Marcus, and Dick Kwiatkowski to discuss the above-referenced proceeding and make the attached presentation.

Consistent with Commission rules, I am filing one electronic copy of this notice and request that you place it in the record of the above-referenced proceedings.

Sincerely,

A handwritten signature in black ink, appearing to be "JM" followed by a long horizontal stroke.

Joan Marsh

cc: Tamara Preiss  
Steve Morris  
Jay Atkinson  
Jeremy Marcus  
Dick Kwiatkowski



# **TELRIC Proceeding: Initial Concerns**

**WC Dkt. No. 03-173**

**October 7, 2003**

# Overall principles

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- When the Commission established current TELRIC standards, it collected a voluminous record, and considered and rejected all rival cost standards:
  - Embedded costs
  - Reproduction costs
  - Short/intermediate-run incremental costs
  - Efficient component pricing rule (ECPR) / Ramsey pricing
- The Commission's decision was appealed all the way to the Supreme Court, which itself reconsidered these issues, and in a 7-1 decision, determined TELRIC to be appropriate for achieving the aims of the '96 Telecommunications Act
- These facts create a high hurdle for new rival standards – and an especially severe hurdle for old rival standards

# Procedural issues

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- The Commission determined its general TELRIC rules in its Local Competition Order (CC Dkt. No. 96-98)
  - This was a monumental undertaking that was completed in six months
  - One comment and reply cycle, constrained by page limits
  - No particular operational methodologies or input values were prescribed
  - No particular UNE prices were developed other than temporary proxies
- Subsequently, in CC Dkt. No. 97-160, the Commission determined how to operationalize its general TELRIC methodology to develop forward-looking universal service costs
  - Proceeding lasted over three years before its major orders were issued
  - 2 NPRMs, 10 PNs, 9 Orders and many, many comment/reply cycles
  - Reconsideration is still pending
- NPRM on TELRIC in WC Dkt. No. 03-173 seems to incorporate all of the issues addressed in the above two proceedings

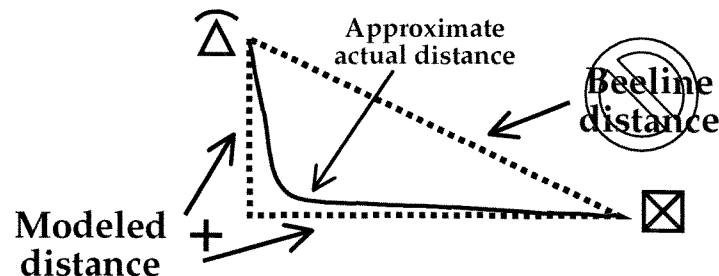
# Impact of the Triennial Review

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- The TRO introduces several restrictions on the availability of UNEs that impinge on the appropriateness of current TELRIC rules
  - Assumption that the CLEC receives access to the full functionality of the leased UNE
  - Assumption that the costed network should be engineered not to impede the provision of advanced services
  - Assumption that UNEs are to be available throughout the expanse of an efficiently sized network
- TRO-driven restrictions appear to require the development of a methodology to reduce current TELRIC-based prices to reflect the diminished cost and value of TRO-compliant UNEs

# Forward-looking network modeling issues

- Concern appears to exist that current modeling practices are deficient in deploying adequate amounts of plant or in being adequately granular and precise in determining plant costs
- Current models have been conservatively generous in determining plant distances and plant placement costs
  - Right-angle routing
  - Use of real geocodes
  - Use of CBG-specific terrain data
- Restricting cable routes to road geocodes and using actual customer location geocodes is not unreasonable
- Any use of embedded data must be at least equally precise



# Embedded network modeling issues

- Basing network costs on “actual” cable paths presumes that the pertinent data exist, are accurate and are in usable form
- The Commission investigated this methodology in CC Dkt. No. 97-160 and determined it to be unworkable
  - Data non-existent, incomplete or inaccurate – and deemed proprietary
  - Data maintained in inconsistent and unusable formats
- The Commission conducted audits of HWCOE in CC Dkt. No. 99-117 and AAD File No. 98-26 and found over 20% of the RBOCs’ property records to be inaccurate
  - The CCB was directed to work with the RBOCs to improve the accuracy of their property records and accounts
- Massive data collection would be needed to determine existing network status, unclear how to determine forecasted changes

# Dynamics in cost modeling

- The NPRM asks many questions that relate to the dynamic nature of cost evolution
  - Fill factors
  - Depreciation
  - Switch deployment
  - Cost of capital
  - Levelization
  - Structure sharing
- If modeling of TELRIC is to reflect properly cost dynamics, it is vital that all of the above factors be treated consistently, e.g.,
  - Monopoly
  - Transition
  - Competition



# Older unresolved issues



- Allocation of network costs to non-tracked, non-UNE services
- Integration of outside plant design
  - Distribution
  - Feeder
  - Interoffice
- Identification of customer locations and services demanded
- Assumptions about evolving technologies and practices
  - Wire center boundaries
  - Host switches vs. remote switches vs. DLC
  - Interoffice SONET ring vs. point-to-point
  - Expenses and non-recurring charges
- Volume discounts, contracts, etc.

# Total service resale issues



- Issue of whether TSR is ever intended to be a useful competitive service mode
- Avoidable vs. avoided cost
  - Wholesale inefficiencies
  - Whether reseller must be required to subsidize retail competitor from wholesale service providers
- Availability of promotional discounts

## Concluding remarks

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- TELRIC pricing of UNEs has been the only entry method that has created broad competition
  - Available nearly everywhere
  - Has induced substantial reductions in consumer and small business rates
  - Has raised the average quality of the service purchase (e.g., features are now more prevalent)
- The availability of UNEs at TELRIC has not impeded any efficient investment and has encouraged investment in vital telecommunications facilities that are really lacking:
  - Killer apps and must-have software
  - Local network elements that expand its functionality and usefulness, not that duplicate it
- TELRIC should be adapted to build on this base, not to raze it